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Dianne Wampler 10/03/2006 12:35:33 PM From DB/Inbox: Dianne Wampler

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UNCLAS SENSITIVE ANKARA 05734

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UNCLAS SECTION 01 OF 03 ANKARA 005734

SIPDIS

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SENSITIVE

E.O.12958: N/A
TAGS: ETRD EIND KTEX ECON TU
SUBJECT: TURKEY'S TEXTILE INDUSTRY SMARTING FROM INCREASED
COMPETITION

REF: STATE 138090

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SIPDIS

11. (SBU) Summary: While overall Turkish exports of textiles and apparel continue to increase slightly (3 percent to date in 2006 and 7.25 percent in 2005), government and industry officials present a bleak picture of the sectors' future. Most notably, Turkish exports to the U.S. fell by 23 percent in the first half of 2006, and many industry representatives fear that without some sort of preferential trade agreement or the often-mentioned Qualified Industrial Zone (QIZ), Turkey will continue to lose share in the U.S. market to lower-cost competitors in China and India. In fact, many Turkish manufacturers have reportedly moved production of lower-value-added items to QIZs in Jordan and Egypt. The textile and apparel sectors in Turkey comprise close to 4 percent of total GDP and 20 percent of its manufacturing output and employ an estimated 2 million people countrywide. Turkey's safeguard measures and those of the U.S. and the EU have done little to buffer its industry from Chinese competition, and the GOT has few plans in place for future steps to counter the increasing competitive pressure. While few have a clear vision of how, both industry and government officials agree that Turkey's textile and apparel future must be in the high-quality

high-fashion market. End Summary.

¶12. (SBU) While trying to maintain guarded optimism, GOT and industry officials painted a bleak picture of Turkey's beleaguered textile industry. As the first country to implement safeguard measures against China in 2005 following the end of the Multi-fiber Agreement, the number of products for which the government has brought such measures rose to 44 in 2006. While official State Planning Organization (SPO) figures show that Turkey's textile and apparel sectors employed approximately 710,459 in 2004 and 638,417 in the first six months of 2005, government and industry officials estimate over 1 million employees are unregistered, bringing the total employment in these sectors to just under 2 million, approximately 21 percent of total registered and unregistered industrial employment. The sectors account for 4 percent of total GDP and 20 percent of total manufacturing output. Currently, there are 43,000 registered companies operating in the sectors, and their total production in 2005 was approximately 27.5 billion USD.

International Competition Forcing Some to Leave the Market

¶13. (SBU) According to industry figures, Turkish exports of textile and apparel increased 7.25 percent between 2004 and 2005, and exports are up 3 percent thus far in 2006. Despite this growth, industry officials argued that there are reasons for concern. An estimated 1044 textile and garment businesses that exported in 2004 (with a volume of 100,000 USD or more) dropped out of the export market in 2005, resulting in export losses worth nearly 700 million USD. In addition, about 1500 companies (with a volume of 100,000 USD or more) have reduced their export volume by 50 percent or more, resulting in export losses of roughly 1.3 billion USD. Furthermore, industry officials argue that most of these losses were in companies focused on the U.S. market.

¶14. (SBU) Due in part to increased competition and in part to the appreciation of the lira against the dollar, textile and apparel exports to the U.S. dropped almost 23 percent in the first half of 2006, on top of a 16 percent decrease in 2005. The Turkish Clothing Manufacturers Association (TGSD) sees this as a direct result of competition from Chinese manufacturers and estimates that 150,000 garment workers lost their jobs in 2005 due to competition from the Far East. Also as a result of this competition, the Istanbul Ready-Made Garment Exporters Association (ITKIB) states that many of its members have moved their production of lower-value-added items to factories located in Qualified Industrial Zones (QIZs) in Jordan (20-25 companies) and Egypt (over 100 companies).

Turkey's Prices Affected By Global Decrease in 2005

¶15. (SBU) Foreign Trade Undersecretariat (FTU) officials told us that due to the flood of lower-priced Chinese products into the domestic market in 2005, Turkish producers have lost their ability to competitively price their low-value items. They cited examples of women's cotton trousers and shorts, for which Chinese unit prices decreased from 10.90 USD per item in 2004 to 4.89 USD in 2005, and women's cotton knit t-shirts, which decreased from 6.24 USD per item in 2004 to 2.64 USD in 2005. In comparison, Turkish products have increased in price due to their increased cost of production. Turkey's price for women's cotton trousers increased from 5.46 USD per item in 2004 to 6.79 USD in 2005, and their unit price for women's cotton knit t-shirts has risen from 3.52 USD in 2004 to 3.59 in 2005.

Safeguards Keeping Turkish Products in the EU Market...For Now

¶16. (SBU) While exports to the U.S. continue to decline, industry and government officials told us that exports to the EU remain strong, with a 3.8 percent increase thus far in 2006. This growth is due in large part to European Customs Union (ECU) protectionist trade measures that have enabled Turkey to retain its market share in Europe despite Chinese competition.

¶17. (SBU) FTU officials are concerned, however, that Turkish exports

to the EU may begin to decline as Chinese and Indian exports increase in that market. In 2005, Chinese exports to the EU increased by 41.5 percent, and they increased another 13 percent in the first quarter of 2006. Indian exports saw similar improvement, increasing by 18 percent in 2005 and 28 percent in the first quarter of 2006. FTU officials argued that in order for the safeguards to truly benefit Turkey, the U.S. and EU need to expand the number of safeguard categories they have invoked. They also stated that because the EU waited until June 2005 and the U.S. until November 2005 to initiate these safeguards, they had limited benefits for Turkish exporters. Even with their own safeguards, however, Turkish Central Bank figures show that Chinese exports to Turkey quadrupled between 2002 and 2005.

No Decrease in Minimum Wage, But Decrease in VAT

¶18. (SBU) Textile workers in Turkey are unionized, while garment workers are not. According to TGSD representative Mustafa Mente, however, U.S. and European brands often impose "codes of conduct" requirements that improve working conditions. As a result, non-union workers in garment factories with codes of conduct often have better working conditions than unionized textile workers. While the employment index in the textile and apparel industry has decreased between 2004 and 2005 (for textiles, it decreased from 76.4 to 70.1, with 1997 equaling 100; for apparel, it decreased from 80.4 to 77.6 for the same period), Turkey's minimum wage laws have prevented a decrease in wages for these sectors, which increased from 2.9 YTL/hour in 2005 to 3.3 YTL/hour in 2006.

¶19. (SBU) While wages have not decreased, the GOT made a controversial decision in March of 2006 to decrease the value-added tax charged for textile and apparel purchases in Turkey from the universal 18 percent rate to 8 percent. This decision elicited criticism from the IMF, which saw it as a divergence from Turkey's program commitments, and demands from other troubled sectors, including tourism, for similar relief. According to FTU officials, the change actually brought very limited assistance to the beleaguered textile market, in part because, according to the WTO's national treatment requirements, the tax rate must be applied to all textiles and apparel, including imports from China and other competing countries.

Plans (or lack thereof) for the Future

¶110. (SBU) Industry and government officials continue to hope for a preferential trade agreement or textile-inclusive QIZ with the U.S. to lower or eliminate the 16 percent average import tariff. Absent such agreements, they argued, prospects for increased exports to the U.S. are dim. Emrah Onguc, Turkish State Planning Organization (SPO) expert on textiles, told us that the SPO, whose job it is to develop long-term plans for Turkey's economy, views a QIZ with the U.S. as the only way to increase exports. This candid statement revealed the GOT's lack of creative ideas for the future of the textile and apparel industry.

¶111. (SBU) ITKIB Chairman Suleyman Orakcioglu sees the future of the Turkish garment industry focusing on "marketing, innovation, and design." For example, manufacturers are working closely with French and Italian labels to produce high-end sportswear and men's suits in Turkey. At the same time, manufacturers are moving their lower-value-added production to factories outside of Turkey, allowing them to focus on higher-value-added goods and niche markets, such as Turkish towels and bathrobes. The EU is also providing assistance (13 million Euro or 75 percent of the total funding) for a Turkish Fashion Institute slated to open by year-end 2006. The Fashion Institute will offer short-and long-term educational programs focused on marketing and design in cooperation with Saint Martin's College in London.

¶112. (SBU) Turkey's State Minister for Foreign Trade, Kursad Tuzmen, announced that in 2006, FTU would begin a trade promotion campaign, the "Year of America," focusing on expanding Turkey's exports to the U.S. by focusing on five key states: New York, Illinois, Florida, Georgia, Texas and California. While Turkey's industrial support and incentive mechanisms are limited by their EU and WTO commitments, they provide non-sector specific financial assistance

for research and development, fair and exhibition participation, and market research support. According to Ziya Altunyaldiz, Deputy Director General for Exports at FTU, Turkey's leather producers are working in conjunction with FTU officials to promote Turkish leather goods in the U.S. market. Government and industry officials agreed that Turkish textile and apparel's future, especially after 2007, is in the high-end markets because producers will not be able to compete with low-cost manufacturers of inexpensive mass-produced items in such countries as China and India.

Statistics

-- Total industrial production USD: 176.8 billion

-- Total textiles and apparel production in USD: 27.5 billion

-- Textile/apparel share of Turkey's imports: (2005) 5.75 percent; (2006 Jan-July) 5.34 percent

-- Textile/apparel share of Turkey's exports: (2005) 25.7 percent; (2006 Jan-July) 23.63 percent

-- Textile/apparel exports to U.S. in 2006 in USD (year on end): For the period ending August 2006, 824 million, down 20.2 percent from the same period in 2005.

-- Total registered manufacturing employment: 4.3 million
(Note: Official sectoral employment figures are grossly understated due to Turkey's large unregistered economy, which many estimate at close to 50 percent of GDP. End note.)

-- Total registered textiles employment (2005): 312,522 registered employees

-- Total registered apparel employment (2005): 325,895 registered employees

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